

**Report of the**  
**Department of Human Resource Management**  
**Workers' Compensation Program**  
**Settlements in Fiscal 2007**  
**and**  
**Experience-based Premium Recommendations**  
**Pursuant to**  
**2007 Virginia Acts of Assembly**  
**Chapter 847, Item 77**

**August 31, 2007**

## **Workers' Compensation Settlements in Fiscal 2007**

The Workers' Compensation Program settled nine Workers' Compensation claims during Fiscal 2007 saving \$ 568,921.92 in expected future costs. Exhibit A provides a list of all settlements. Savings are calculated as follows:

Total Case Reserves (Future Exposure)	\$ 722,899.77
Total Settlement Amounts	\$ 153,977.85
Savings due to Settlements	\$ 568,921.92

All settlements have been approved by the Virginia Workers' Compensation Commission as being in the best interest of the claimant or the dependents as required by Rule 1.7 of the Rules of the Commission. Prior to the approval of all settlements, the Workers' Compensation Program staff must:

- obtain the most current medical information
- obtain a current rehabilitation report indicating the employee's inability to return to any type of gainful employment
- determine if the employee has taken disability or service retirement through the Virginia Retirement System
- determine if the employee is receiving social security disability benefits
- confirm that the employee does not have health insurance through Department of Human Resource Management COVA Care
- conduct an analysis of the benefit to the Commonwealth of Virginia when comparing the amount of settlement to the estimated future exposure that would be created for the Virginia Retirement System
- obtain approval from the Director of Workers' Compensation

After it has been determined that it is in both the claimant's and the Commonwealth of Virginia's best interest to settle the claim, it is submitted to the Office of the Attorney General for approval. (There were no settlements that were of a dollar amount that required gubernatorial approval.) If the Office of the Attorney General concurs with the recommendation, the proposed compromise settlement is submitted to the Virginia Workers' Compensation Commission for their approval.

## Experience-based Premium Recommendations

### Objective

The study provides recommendations to the Governor and the General Assembly of the agency-by-agency cost of experience-based premiums for the Department of Human Resource Management Workers' Compensation Program for FY2009 and FY2010 using the latest actuarial data.

### Recommendation

The recommendation is to have workers' compensation premiums equal to the cash flow needs of the program. Total premiums recommended for each fiscal year are:

<b><u>Recommended FY2009 Premium</u></b>	<b><u>Recommended FY 2010 Premium</u></b>
<b>\$58,541,096</b>	<b>\$61,359,986</b>

### Background

Experience-based premiums are based on the marketplace premise that the higher the cost of claims, the higher the premiums. The policyholder's claim history, the number and dollar amount of previous claims, projected payroll, as well as other risk factors determine premiums. With experience-based premiums, the policyholder absorbs any increase in premium costs, and retains savings if premiums decrease. This gives the policyholder a monetary incentive to prevent accidents and control costs.

The Department of Planning and Budget conducted an evaluation study of the Workers' Compensation Program and in December of 1998 issued a report *Experience-Based Premiums for the Commonwealth's Self-Insurance Programs*. They recommended that the Workers' Compensation Program should adopt experience-based premiums. Because of the increased cost of premiums and the cost shifting between agencies, experience-based premiums were phased in over a two-year period. Premiums for FY2000 were capped at no more than a 50 percent increase or decrease, compared to FY1998 premiums. Premiums for FY2001 were experience based with no cap. Premiums for FY2002 were identical to FY2001 and did not reflect loss or payroll trends or exposure (payroll) growth between 2000 and 2002. Premiums for FY2003-FY2008 were also experience based.

Since FY1998 total premiums collected equaled the actuarial projection of the expected cash flow needs of the program. There is no requirement that the workers' compensation program be actuarially sound. The workers' compensation program has consistently been in a deficit fund position since 1987.

## **Benefits of Experience-based Premiums**

With so many competing goals existing in the work environment today, claims and loss control receive little attention by agency management when there are no consequences. Experience-based premiums have created agency management awareness of the cost of their claims. It has also provided a financial incentive for agencies to control costs. When an agency has an effective loss control program, premiums typically will be reduced due to improved experience (unless the agency has a significant increase in projected payroll).

Since 1999 agencies have been required to analyze their workplace accidents, develop goals and strategies to reduce or eliminate them, and to create opportunities, whenever possible, to return employees to work. Since implementing experience-based premiums, agencies have made significant headway in controlling workplace injuries. Creating experience-based premiums has definitely increased agency attention to their safety and loss control needs.

The Workers' Compensation Program has created an extensive training and inspection program that assists agencies with their initiatives to:

- eliminate or reduce premises hazards
- reduce or control exposures
- create training programs to increase control of risk
- improve workplace safety
- reduce program costs
- reduce the frequency and severity of claims
- return employees to work in a transitional or modified duty capacity

## **Methodology**

Oliver Wyman Actuarial Consulting, Inc. (Oliver Wyman) was asked to provide an allocation of the projected FY2009 and FY2010 costs of the workers' compensation self-insurance program to the Commonwealth's agencies. The allocation was to reflect the historical experience of the individual agencies. It was also requested that they rely on their annual analysis of the overall reserve requirements of the self-insurance program.

The Department of Planning and Budget provided payroll information. Actual premiums charged to each agency and their claims history was provided by the Office of Workers' Compensation.

The actuary provides three premium options based upon their reserve analysis. The figures represent the total of the projected program and administrative expenses and projected losses for FY2009 and FY2010 under three scenarios:

1. Indicated Undiscounted Actuarial Premium (cashflow) – the premium required to pay the ultimate cost of claims anticipated to occur during FY2009 plus the FY2009 program and administrative expenses.
2. Pay As You Go – projection of loss and expense payments (net of anticipated investment income) to be made during FY2009 on all accident years.

3. Pay As You Go Plus One Year's Cashflow – projection of loss and expense payments (net of anticipated investment income) to be made during FY2009 plus the amount required so that the FY2009 ending fund balance is equal to the FY2010 cash flow.

It is the recommendation of the Department of Human Resource Management that the program continue to allocate premiums on the Pay As You Go basis. This scenario represents a 10.6 percent increase in overall premiums for FY2009 as compared to FY2008 and a 4.8 percent overall increase in premiums for FY2010 as compared to FY2009.

Total premiums recommended are \$58,541,096 for FY2009 and \$61,359,986 for FY2010. Exhibit B provides recommended workers' compensation premiums by agency on a Pay as You Go (cash flow) basis for FY2009 and FY2010. The complete actuarial study is attached (Exhibit C) which provides details of the individual calculations that were performed to arrive at the final premium recommendations.

## EXHIBIT A

**Fiscal Year 2007 Workers' Compensation Settlements**

<b>Claimant Name</b>	<b>Date of Injury</b>	<b>Settlement Amount</b>	<b>Future Exposure</b>	<b>Savings due to Settlement</b>
Denise Carr	8/21/2003	\$5,145.00	\$ 10,846.61	\$ 5,701.61
Michael Travis Devore	5/21/2001	\$11,128.36	\$ 15,382.36	\$ 4,254.00
Brian Hackney	7/19/2000	\$38,962.13	\$ 243,612.00	\$ 204,649.87
Mary L. McKeller	9/3/2002	\$2,974.36	\$ 14,633.35	\$ 11,658.99
Helen Carter	6/5/2005	\$20,000.00	\$ 31,135.80	\$ 11,135.80
Jo-Jeen Rusak	1/4/1999	\$27,768.00	\$ 258,337.87	\$ 230,569.87
George Jackson	1/5/1999	\$25,000.00	\$ 67,204.00	\$ 42,204.00
Ann Smith Lewis	9/3/1997	\$8,000.00	\$ 12,642.10	\$ 4,642.10
Arnold Gibbs	8/20/2004	\$15,000.00	\$ 69,105.68	\$ 54,105.68
<b>TOTALS</b>		<b>\$153,977.85</b>	<b>\$722,899.77</b>	<b>\$568,921.92</b>

**COMMONWEALTH OF VIRGINIA**  
**SELF INSURANCE FUND**  
**WORKERS COMPENSATION PREMIUM FOR FISCAL YEARS 2009 & 2010**

Agency Code	Agency Name	FY 2008 Actual Premium	Recommended Premium	
			Pay As You Go FY 2009	Pay As You Go FY 2010
100	Senate of Virginia	6,649	7,970	8,243
101	House of Delegates	11,497	14,382	14,866
103	Magistrate System	22,092	20,634	21,350
107	Division of Legislative Services	6,298	5,558	5,750
108	VA Code Commission	37	40	42
109	Division of Legislative Automated Systems	1,130	1,532	1,989
110	Joint Legislative Audit Review Commission	3,552	3,321	3,437
111	Supreme Court of Virginia	155,662	170,642	176,553
112	Judicial Inquiry and Review Commission	433	488	505
117	Virginia State Bar	6,615	8,375	8,665
119	Office of Lieutenant Governor	337	343	355
121	Office of the Governor	3,337	4,524	4,812
122	Department of Planning & Budget	5,182	7,025	8,283
123	Department of Military Affairs	185,732	251,794	292,901
127	Department of Emergency Management	13,107	13,972	14,427
129	Department of Human Resources Management	8,001	10,246	10,599
132	State Board of Elections	1,626	2,204	2,435
133	Auditor of Public Accounts	3,908	5,298	5,486
136	Virginia Information Technologies	39,599	53,684	58,233
140	Department of Criminal Justice Services	12,846	10,992	11,075
141	Office of the Attorney General	18,076	22,555	23,335
146	Science Museum of Virginia	19,070	25,102	25,956
148	Virginia Commission for the Arts	341	413	427
151	Department of Accounts	5,575	7,558	9,811
152	Department of the Treasury	12,921	14,798	15,310
154	Department of Motor Vehicles	647,081	877,238	995,037
156	Department of State Police	4,114,083	4,128,206	4,266,359
157	Compensation Board	1,392	1,887	2,043
158	Virginia Retirement System	15,054	20,408	26,493
160	Virginia Criminal Sentencing Commission	734	928	960
161	Virginia Department of Taxation	62,377	70,271	72,614
163	Department for the Aging	1,794	2,432	2,624
165	Dept of Housing & Community Development	14,592	14,736	15,244
166	Secretary of the Commonwealth	1,319	1,706	1,764
170	Council on Human Rights	284	385	500
171	State Corporation Commission	53,706	64,932	67,184
172	Virginia State Lottery Department	18,100	23,157	23,957
173	Charitable Gaming Commission	2,386	3,235	3,446
174	Virginia College Savings Plan	2,418	3,278	4,255
175	Virginia Office for Protection and Advocacy	2,117	2,870	3,726
180	Secretary of Administration	1,109	1,358	1,406
181	Virginia Department of Labor and Industry	50,145	42,908	41,413
182	Virginia Employment Commission	99,496	92,904	96,061
183	Secretary of Natural Resources	605	786	814
184	Secretary of Technology	82	111	144

Agency Code	Agency Name	FY 2008 Actual Premium	Recommended Premium	
			Pay As You Go FY 2009	Pay As You Go FY 2010
185	Secretary of Education	720	835	864
186	Secretary of Transportation	678	836	865
187	Secretary of Public Safety	838	909	941
188	Secretary of Health and Human Resources	856	928	960
190	Secretary of Finance	588	771	798
191	Virginia Workers' Compensation Commission	36,407	49,356	64,072
192	Secretary of Economic Development	648	878	1,070
193	Secretary of Agriculture and Forestry	0	517	543
194	Department of General Services	268,522	284,053	293,701
199	Department of Conservation and Recreation	239,849	325,160	403,419
201	Department of Education	21,150	28,673	36,899
202	The Library of Virginia	11,569	15,684	16,389
204	The College of William & Mary	437,342	585,601	605,602
207	University of Virginia	1,292,701	1,541,749	1,594,235
208	Virginia Polytechnic Institute & State University	2,413,490	2,218,915	2,293,983
209	University of Virginia Medical Center	1,987,461	2,077,586	2,143,642
211	Virginia Military Institute	160,005	136,914	139,116
212	Virginia State University	123,660	163,618	169,223
213	Norfolk State University	258,418	292,189	302,189
214	Longwood University	206,926	246,142	254,625
215	University of Mary Washington	144,520	192,690	199,278
216	James Madison University	602,431	816,706	864,256
217	Radford University	458,783	516,740	534,438
218	Virginia School for the Deaf & Blind Staunton	47,351	43,691	45,177
219	Virginia School for the Deaf & Blind Hampton	97,220	91,554	94,635
221	Old Dominion University	536,391	556,115	575,089
222	Dept of Professional & Occupational Reg	10,919	14,803	18,795
223	Department of Health Professions	34,012	32,989	34,125
226	Board of Accountancy	313	424	551
232	Dept of Minority Business Enterprise	1,451	1,901	1,966
233	Virginia Board of Bar Examiners	664	900	965
236	Virginia Commonwealth University	1,127,688	1,390,187	1,437,520
238	Virginia Museum of Fine Arts	52,927	45,289	45,703
239	Virginia Frontier Culture Museum	5,571	4,767	3,805
242	Christopher Newport College	129,523	175,592	214,679
245	State Council for Higher Education	3,032	4,110	5,336
246	University of Virginia at Wise	56,782	76,978	80,916
247	George Mason University	679,106	789,345	816,249
260	Virginia Community College System	886,635	1,201,997	1,406,604
262	Department of Rehabilitative Services	187,253	253,856	329,544
268	Virginia Institute of Marine Science	135,736	165,912	171,546
301	Dept. of Agriculture & Consumer Services	110,940	128,574	132,952
307	Virginia Agricultural Council	23	31	39
319	Chippokes Plantation Farm Foundation	649	555	443
325	Department of Business Assistance	5,772	4,939	5,099
326	Office of Workforce Development and Workforce Co	0	960	1,009
400	Jamestown 2007	0	1,480	1,554
402	Marine Resources Commission	142,210	121,687	115,589
403	Department of Game and Inland Fisheries	395,243	462,703	478,385
405	Virginia Racing Commission	1,332	1,806	2,230
409	Department of Mines, Minerals and Energy	70,247	69,968	72,396
411	Department of Forestry	203,965	276,512	313,674
413	Virginia Alcohol Safety Action Program	1,452	1,968	2,555
417	Gunston Hall	2,290	1,960	1,880
423	Department of Historic Resources	8,558	9,673	10,008
425	Jamestown-Yorktown Foundation	77,377	102,884	106,289



Agency Code	Agency Name	FY 2008 Actual Premium	Recommended Premium	
			Pay As You Go FY 2009	Pay As You Go FY 2010
440	Department of Environmental Quality	156,249	148,320	153,454
454	Office of Commonwealth Preparedness	529	717	931
501	Department of Transportation	12,738,534	14,579,824	15,071,338
507	Board of Towing and Recovery Operations	0	89	94
601	Virginia Department of Health	932,173	952,132	984,911
602	Department of Medical Assistance Services	23,455	31,798	34,530
606	Virginia Board for People w/Disabilities	658	892	1,158
702	Department for the Blind and Vision Impaired	65,289	76,959	79,595
720	Dept. of Mental Health & Mental Retardation	8,862,578	9,389,624	9,700,514
750	Department of Correctional Education	148,332	190,815	197,402
751	Virginia Dept for Deaf & Hard of Hearing	1,060	1,183	1,224
765	Department of Social Services	164,584	223,124	265,102
766	Virginia Parole Board	805	951	984
777	Department of Juvenile Justice	1,877,936	2,429,180	2,511,259
778	Department of Forensic Science	86,578	74,083	75,740
794	Virginia Center for Behavioral Rehabilitation	21,253	28,812	37,403
799	Department of Corrections	7,364,677	7,255,873	7,503,486
820	Capitol Square Preservation Council	91	117	121
834	Virginia Freedom of Information Advisory Council	166	207	214
839	Virginia Commission of Youth	246	325	336
840	Virginia Housing Study Commission	163	139	N/A
841	Department of Aviation	11,724	14,911	15,427
844	Joint Commission on Health	286	388	503
847	Comm. on Tech. & Sciences	156	201	208
848	Public Defender Commission	23,121	31,345	40,690
853	Office for Substance Abuse Prevention	299	256	212
861	Enterprise Applications Public-Private Partnership Pr	0	1,146	1,204
912	Department of Veterans' Services	121,487	164,698	180,746
937	Southern Virginia Higher Education Center	0	2,274	2,387
938	New College Institute	0	601	631
942	Virginia Museum of Natural History	2,282	3,035	3,139
948	Southwest VA High Ed Center	3,374	3,954	4,088
957	Commonwealth's Attorney's Service Council	342	464	602
960	Department of Fire Programs	24,071	32,633	42,362
961	Division of Capitol Police	58,909	72,946	75,438
962	Dept of Employment Dispute Resolution	1,171	1,588	1,859
999	Department of Alcoholic Beverage Control	940,292	1,274,739	1,571,393
	Statewide Total	52,945,561	58,541,096	61,359,986